

FDIC State Profile

Spring 2004

Montana

Nonfarm employment growth continued to slow in Montana.

- Non-agricultural employment grew only 0.43 percent year-over-year as of fourth quarter 2003, significantly less than the 1.57 percent employment growth rate posted for fourth quarter 2001 to fourth quarter 2002 (See Chart 1). Employment growth in the educational and health services, leisure and hospitality, and government sectors offset jobs lost in the weak manufacturing sector.
- Jobs in the manufacturing sector decreased by 4.6 percent year-over-year as of fourth quarter 2003, primarily because of weakness in forest products; employment losses in wood product manufacturing accounted for half of all manufacturing jobs lost.¹ Production and employment in Montana's forest products industry declined during 2003. Court decisions restricted logging in some forests, several mills cut back operations due to wildfires, and mills in Libby and Belgrade closed in 2003. Despite the improving national economy and a weak dollar, the Montana timber industry faces uncertainty regarding supply.²

Slower growth in construction activity may have contributed to a decrease in construction and development (C&D) lending reported by insured institutions headquartered in Montana.

- Construction activity, especially housing construction, continued to grow, albeit at a slower rate. For 2003, single family home permits grew 10 percent year-over-year, down from the 20 percent year-over-year growth rate experienced in 2002.
- After more than a decade of steady increase, C&D lending moderated among insured institutions headquartered in Montana in the past year, perhaps related to slower growth in residential construction (See Chart 2). As of fourth quarter 2003, the median C&D loan-to-Tier 1 capital ratio was 18.7 percent, down from 19.2 percent one-year earlier.

Chart 1: Total Nonfarm Employment Growth in Montana Has Slowed

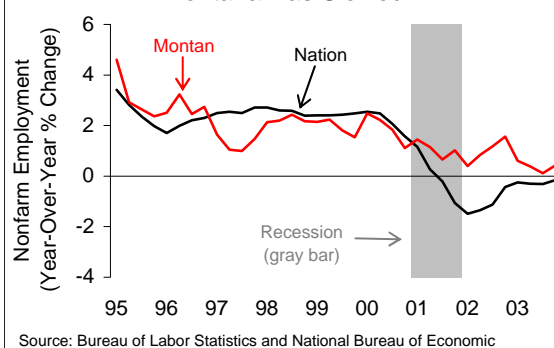


Chart 2: C&D Exposures Among Montana's Insured Institutions Moderated Recently

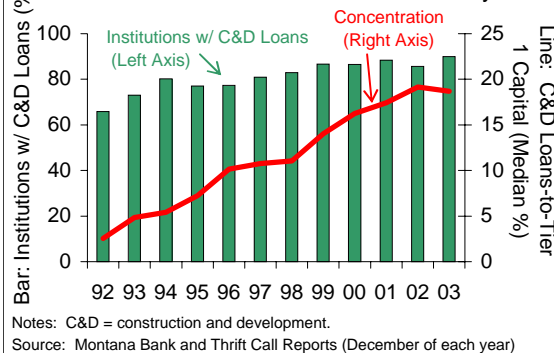
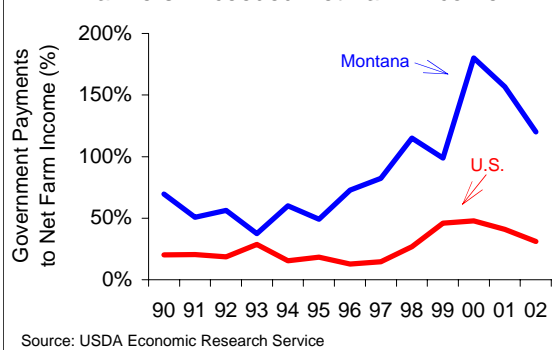


Chart 3: Government Payments to Montana Farmers Exceeded Net Farm Income



¹Report: Cutbacks Spur Jump in Lumber Industry, The Missoulian, June 20, 2003

²Price Gains Fail to Help Lumber Firms, Billings Gazette, December 11, 2003

State Profile

The Montana economy relies heavily on the agricultural sector.³

- Cattle and wheat production, which accounted for 72 percent of Montana's 2002 farm receipts, reported positive results in 2003, despite stresses related to disease and drought. Within one month of the December 2003 diagnosis of a cow with bovine spongiform encephalopathy (BSE) in Washington, steer prices dropped approximately 19 percent from their November 2003 levels but remained higher than they were in January 2002.
- Although Montana continued to suffer from a drought, 2003 crop reports were largely positive. Wheat production was 25 percent above 2002 levels, attributed to a bumper winter wheat crop.⁴ However, much of the state will continue to suffer from a hydrological drought, even with normal precipitation over the 2003-2004 winter season.⁵
- Years of drought and low commodity prices have had an adverse impact on farm incomes in Montana. As a result, government payments have approximated or exceeded net farm income from 1998 through 2002, the last year which figures were available. In 2002, these subsidies accounted for 120 percent of net farm income, almost 4 times the national average (See Chart 3).

Montana's insured institutions, especially rural-based institutions, have high levels of delinquent loans.

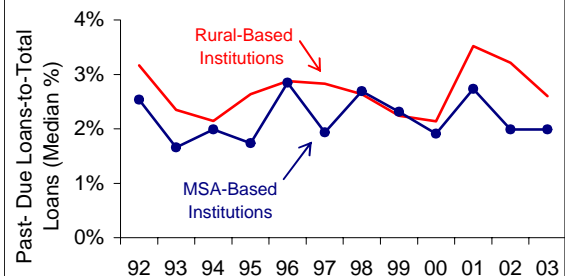
- Difficulties in the agricultural sector appear to have directly translated into challenges for local businesses and consumers based in rural areas. Rural-based institutions reported 1.8 times the exposure to agricultural credits as MSA-based institutions, 119 percent versus 67 percent of Tier 1 capital as of fourth quarter 2003, and rural-based institutions reported higher median past-due ratios than institutions headquartered in an metro area.
- The fourth quarter 2003 median past-due and nonaccrual-to-total loans ratio was 2.19 percent for Montana's 80 insured institutions, substantially above the 1.67 percent ratio for insured institutions nationwide.
- Most, 82 percent, of Montana's insured institutions are based in rural areas. These institutions reported delinquencies at 2.60 percent of total loans as of December 31, 2003, significantly higher than the 1.99 percent reported by institutions based in the state's metro areas, particularly in the commercial real estate, commercial

and industrial, consumer and single family mortgage loan categories (See Chart 4).

Despite higher past-due loans and lower short-term interest rates over the last three years, Montana's insured institutions exhibited strong earnings performance.

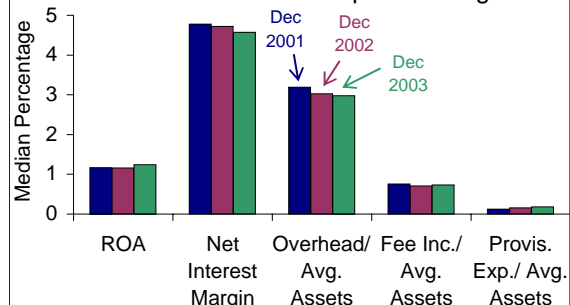
- Insured institutions headquartered in Montana reported a median after-tax return on average assets (ROA) ratio of 1.24 percent for the year 2003, 18 percent above the 1.02 percent median ROA for insured institutions nationwide. Montana's strong earnings performance relative to the nation resulted from higher yields on assets, lower funding costs, and above-average fee income.
- Although Montana's insured institutions reported strong earnings, lower interest rates have pressured net interest margins because asset yields have decreased more than funding costs. The net interest margin decreased from 4.72 percent to 4.57 percent year-over-year as of December 31, 2003, but remained well above the median net interest margin of 4.00 percent for insured institutions nationwide. (See Chart 5).

Chart 4: Delinquencies Were Higher Among Montana's Rural-Based Institutions



Note: Rural-based institutions denotes institutions not headquartered within a Metropolitan Statistical Area (MSA).
Source: Bank Call Reports (December of each year)

Chart 5: Controlled Overhead and Improved Non-Interest Income Helped Earnings



Note: ROA = return on average assets
Source: Montana Bank and Thrift Call Reports

³Agriculture represented 3.8 percent of Montana's 2001 Gross State Product.

⁴"2003 Crop Values", Montana Agricultural Statistics Service, February 13, 2004

⁵Hydrological drought is associated with the effects of periods of precipitation (including snowfall) shortfalls on surface or subsurface water supply (i.e., streamflow, reservoir and lake levels, ground water).

State Profile

Montana at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	80	84	86	89	90
Total Assets (in thousands)	13,533,970	14,269,435	14,362,842	12,492,957	11,707,929
New Institutions (# < 3 years)	4	3	2	1	1
New Institutions (# < 9 years)	6	6	5	3	4
Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.16	9.22	8.91	9.39	9.27
Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.26%	3.04%	3.16%	2.07%	2.29%
Past-Due and Nonaccrual >= 5%	18	19	23	16	14
ALLL/Total Loans (median %)	1.46%	1.47%	1.50%	1.48%	1.50%
ALLL/Noncurrent Loans (median multiple)	1.37	1.43	1.20	1.53	1.48
Net Loan Losses/Loans (aggregate)	0.21%	0.31%	0.22%	0.22%	0.28%
Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	3	2	1	1	1
Percent Unprofitable	3.75%	2.38%	1.16%	1.12%	1.11%
Return on Assets (median %)	1.24	1.16	1.17	1.27	1.23
25th Percentile	0.90	0.88	0.97	1.01	1.06
Net Interest Margin (median %)	4.57%	4.72%	4.78%	5.01%	5.03%
Yield on Earning Assets (median)	6.19%	6.96%	8.27%	8.83%	8.37%
Cost of Funding Earning Assets (median)	1.54%	2.19%	3.39%	3.75%	3.45%
Provisions to Avg. Assets (median)	0.18%	0.16%	0.12%	0.13%	0.09%
Noninterest Income to Avg. Assets (median)	0.73%	0.70%	0.76%	0.70%	0.73%
Overhead to Avg. Assets (median)	2.98%	3.03%	3.19%	3.15%	3.22%
Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	74.14%	73.48%	74.06%	73.94%	72.01%
Loans to Assets (median %)	61.34%	63.14%	61.79%	64.00%	61.51%
Brokered Deposits (# of Institutions)	9	9	8	13	10
Bro. Deps./Assets (median for above inst.)	5.79%	4.20%	1.41%	1.53%	0.78%
Noncore Funding to Assets (median)	13.95%	13.91%	14.07%	15.76%	13.28%
Core Funding to Assets (median)	74.57%	74.24%	72.96%	73.88%	76.71%
Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	31	31	32	33	35
National	13	16	17	18	18
State Member	33	33	33	33	32
S&L	2	2	2	2	2
Savings Bank	1	2	2	3	3
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	66	7,191,470	82.50%	53.14%	
Great Falls MT	5	398,590	6.25%	2.95%	
Billings MT	5	5,131,443	6.25%	37.92%	
Missoula MT	4	812,467	5.00%	6.00%	